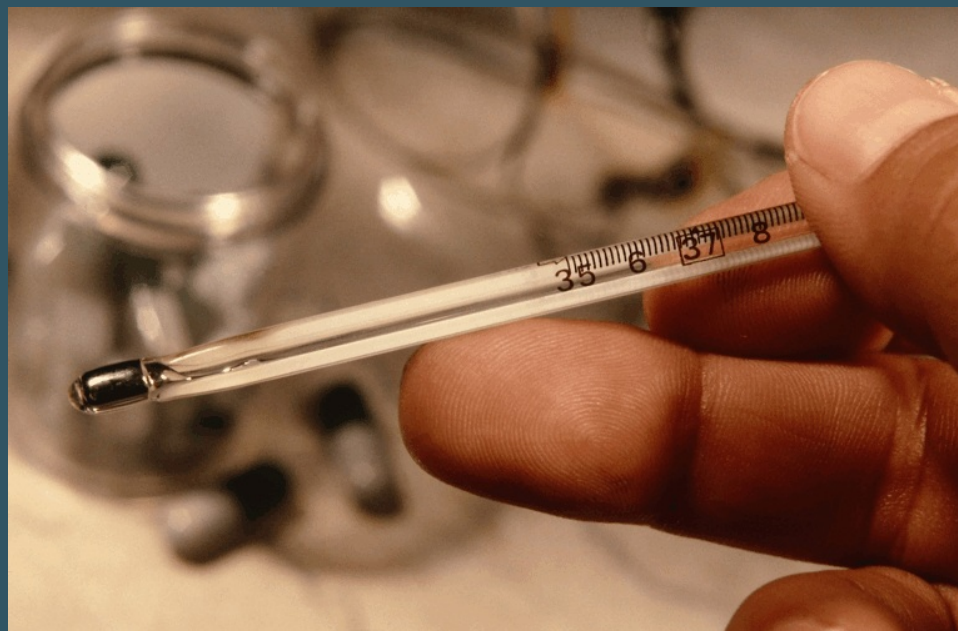




Health Savings Accounts

April 19, 2006



Staff Presentation
Business and Labor Interim Committee



What is it?

- Health Savings Account (HSA)
 - Tax-free financial accounts designed to help individuals save for health care expenses and used in conjunction with high-deductible health plans (HDHP)
- Example of “consumer-directed health plan”
- Federally established in 12/2003
 - Medicare Prescription Drug Improvement and Modernization Act of 2003
- Evolved from Medical Savings Account (MSA)



What is it?

HSA

MSA

HRA

FSA

Funding

Eligibility

Health Plan Requirements

Contributions

Qualified Medical Expenses

Carryover

Portability

Tax Status

Withdrawals

Interest

Health Insurance Premium Payment





What is it?

	HSA	MSA	HRA	FSA
Funding ←	Individual and/or employer	Individual OR employer OR self-employed	Employer only	Typically employee
Eligibility				
Health Plan Requirements				
Contributions				
Qualified Medical Expenses				
Carryover				
Portability				
Tax Status				
Withdrawals				
Interest				
Health Insurance Premium Payment				



What is it?

HSA

MSA

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Tax Status

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Interest

Health Insurance Premium Payment

Can carry
forward

Same as
HSAs

Subject to
limitations of
employer

May not
carry
forward

Can take
when
leave job

Same as
HSAs

Discretion
of employer

Not
portable



Who is eligible?

- Covered by a HSA-qualified HDHP
- Not eligible for Medicare *
- Not covered by other health insurance plan
- Not claimed as a dependent



Who is eligible?

- Covered by a HSA-qualified HDHP
- Not eligible for a plan that does not cover first dollar medical expenses
- Not covered by other health insurance plan
- Not claimed as a dependent at least:

Deductible \$1,050(self)

\$2,100(family)

Out-of-pocket \$5,250(self)

cannot exceed: \$10,500(family)

2006 amounts, adjusted annually for inflation, Source: Dept of the Treasury (4/05)



What can be contributed?

- Cannot exceed the deductible of HDHP
- 2006 limits (adjusted annually for inflation)
 - Single \$2,700
 - Family \$5,450
- If contributions made by both individual and employer, aggregate to see if maximum met
- If over 55, may make “catch-up” contributions



Eligible expenses?

Examples

- Routine medical visits
- Diagnosis/treatment of disease
- Prescriptions/some non-prescription drugs
- Eye and dental care
- COBRA premiums
- Acupuncture
- Midwife services
- Others



What is the tax treatment?

1040 Department of the Treasury—Internal Revenue Service **2005** (05) IRS Use Only—Do not write or staple in this space.

U.S. Individual Income Tax Return

Label
(See instructions on page 16.)
Use the IRS label.
Otherwise, please print or type.

For the year Jan. 1-Dec. 31, 2005, or other tax year beginning , 2005, ending , 20

OMB No. 1545-0074

Your first name and initial **Last name** **Your social security number**

If a joint return, spouse's first name and initial **Last name** **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 10. **Apt. no.**

City, town or post office, state, and ZIP code. If you have a foreign address, see page 10.

Checking a box below will not change your tax or refund.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 16) ☐ You ☐ Spouse

Filing Status

1 ☐ Single

2 ☐ Married filing jointly (even if only one had income)

4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter

Exempt

Adjusted Gross Income

23 Educator expenses (see page 29)

24 Certain business expenses of reservists, performing artists, and

25 Health savings account deduction. Attach Form 8889.

26 Moving expenses. Attach Form 3902.

27 One-half of self-employment tax. Attach Schedule SE.

28 Self-employed SEP, SIMPLE, and qualified plans.

29 Self-employed health insurance deduction (see page 30).

30 Penalty on early withdrawal of savings.

31a Alimony paid b Recipient's SSN

32 IRA deduction (see page 31)

33 Student loan interest deduction (see page 32)

34 Tuition and fees deduction (see page 34)

35 Domestic production activities deduction. Attach Form 8803

36 Add lines 23 through 31a and 32 through 35

37 Subtract line 36 from line 22. This is your adjusted gross income

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 78. Cat. No. 11320B Form 1040 (2005)

Utah
Medical Care
Savings
Accounts



Are HSAs used?

- As of Jan. 2006, 3 million people, just over 2% of private health insurance market, have HSA-qualified HDHPs
 - One survey found that of consumers with an HDHP, only 13% have an associated financial account
 - HSA/HDHP coverage in the group market rose from 397,000 in March 2005 to 1.4 million in January 2006
 - Individual market: 31% of new enrollees in HSA/HDHP plans were previously uninsured
 - Small-group market: 33% of enrollment in HSA/HDHP plans was small companies that previously did not offer coverage
 - One survey found an average balance of \$1,181



Are HSAs beneficial?

Examples of Pros and Cons

Proponents

- Enhances portability
- Affordable for young healthy workers
- Tax benefits
- Prudent buying may bring aggregate costs down

Critics

- Erodes pooling
- Premiums for people with chronic conditions may be unaffordable
- Wealthier workers benefit more from tax break
- At mercy of market without good information



Are HSAs beneficial?

Example of Early Experiences Nationally

Benefit

- More cost-conscious consumers

Possible Concerns

- Higher out-of pocket costs
- More missed health care



Recent legislation?

Example

- H.B. 76 High Deductible Health Plan Option for Public Employees (2006 Gen. Session)
 - Requires PEHP to offer HDHP with HSA option
 - Limits frequency employee can change plans
 - Employer contribution determined annually
 - Employee contribution optional



What is next?



OPTIONS?